Next

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE BUDGET OFFICE
OF THE LEGISLATIVE SERVICE COMMISSION

NOVEMBER, 2000

FISCAL OVERVIEW

— Doris Mahaffey

October revenues came in at a mere $26 million over estimate. Disbursements added $95 million to the existing overage. Medicaid continues to be the big story for the month with lackluster sales tax revenues taking second billing. Year-to-date revenues are $118 million over estimate – due largely to the non-tax revenues sources – and year-to-date disbursements are over three times that at $377 million over estimate. Medicaid, higher education and transfers out (discussed in last month's ***Budget Footnotes*** article) together amount to 111 percent of the overage.

Although total GRF income was over estimate in October, most revenue sources were under estimate for the month. Substantial overages in the personal income tax and the transfers in category offset the negative balances in the other revenue sources. Significant underages were recorded in the non-auto sales and use tax ($14.5 million under), the estate tax ($26 million under), the public utility excise tax ($14.5 million under) and the corporate franchise tax ($4 million under). And – for the first time this year – federal reimbursement were under for the month (by $11.3 million).

The underage in the sales tax is a by-now familiar refrain: Consumer spending has slowed reflecting a cooling – if not overcooled – economy. The underage in the estate tax is a timing issue (also a familiar refrain). Estate tax revenues are received by local governments and the actual receipt of funds by the state Treasury depends upon the timing of settlements between the Tax Department and the county auditors. The underage in the public utility excise tax reveals another timing issue, due in this case to changes that H.B. 283 made to the tax.

Program expenditures were about $95 million over estimate for the month. Higher education and Medicaid added, respectively, $97 million and $77 million to existing overages. Primary and secondary education's $47 million overage reduced its existing shortfall, and the state increased capital spending by $18 million – more than double the estimated amount. The overage in higher education was largely due to a debt payment made in October – a month earlier than estimated. The Medicaid overage was due to higher than estimated caseloads coupled with increasing costs.

Volume 24, Number 2

Budget Footnotes is issued monthly by the Legislative Budget Office (LBO) of the Legislative Service Commission, a non-partisan fiscal research agency serving the Ohio General Assembly.

Budget Footnotes examines the fiscal position of the state GRF on a monthly basis. Each issue also contains summaries of Controlling Board actions that have policy implications, and articles on fiscal issues of current interest.

For questions or comments regarding specific sections:

GRF Revenue:
Doris Mahaffey 644-7762

GRF Spending:
Jeff Golon 644-8751

Other Articles:
Dennis Morgan 466-0520

❑❑❑❑❑

Legislative Budget Office
Of the Legislative Service Commission
77 South High Street
8th Floor
Columbus, Ohio
43266-0347

Telephone: 614/466-8734

TABLE 1
General Revenue Fund
Simplified Cash Statement
($ in millions)

	Month of October	Fiscal Year 2001 to Date	Last Year	Difference
Beginning Cash Balance	($264.4)	$1,506.2		
Revenue + Transfers	$1,803.4	$6,331.5		
Available Resources	$1,539.0	$7,837.7		
Disbursements + Transfers	$2,207.0	$8,505.6		
Ending Cash Balances	**($668.0)**	**($668.0)**	**($185.7)**	**($482.3)**
Encumbrances and Accts. Payable		$969.2	$799.0	$170.2
Unobligated Balance		**($1,637.1)**	**($984.7)**	**($652.5)**
BSF Balance		$1,002.5	$953.3	$49.2
Combined GRF and BSF Balance		**($634.6)**	**($31.4)**	**($603.3)**

Significant underages were posted in the other government category ($65 million under), justice and corrections ($39 million under), development ($14 million under) and TANF ([Temporary Assistance to Needy Families] $17 million under). The underages in the first three program areas were largely due to the interest payments made in September, which had been included in October's estimates. TANF is another story. While the main reason for the underage here was lower than anticipated payments to counties, a contributing factor was the reduction in caseloads. The 36-month time limit on the receipt of cash benefits that was a part of the 1997 welfare reform had its initial impact this month.

On a year-to-date basis, the most notable overages are in the Medicaid ($148 million over), higher education ($109.5 million), and justice and corrections ($30 million) programs. Transfers out add another $159 million to the year-to-date overage.

TANF has the largest expenditure shortfall at $40 million under (12 percent of estimated expenditures); and other government is about $18 million under (9 percent of estimated expenditures). Primary and secondary education is about $19 million under – but with a variance less than 1 percent of estimated expenditures, it is virtually on target.

With year-to-date disbursements outstripping revenues by $2.2 billion and encumbrances hovering near the $1 billion mark (for the third month in a row), the month of October posted the largest negative balance to date (although not the largest as a percent of year-to-date revenues). The ending cash balance is -$668 million. The unobligated balance is - $1.6 billion. (See Table 1.) The unobligated balance represents just over one quarter of year-to-date revenues (including transfers). However, by the end of October last year, the state's unobligated balance represented only 17 percent of year-to-date revenues. Net transfers out have apparently not added to the increase in the negative cash balance vis-à-vis this time last year. At the end of October of both 1999 and 2000 net transfers out (that is transfers out minus transfers in) amounted to roughly $700 million. ❑

Status of the General Revenue Fund

REVENUES

—Doris Mahaffey

The October revenue picture seems to provide yet more evidence of a weakening economy. Transfers of nearly $60 million to the GRF from other state funds enabled state revenues to beat the revenue estimate for the month – but only by $29 million. The non-auto sales and use tax fell short of the estimate by $14.5 million. The public utility excise tax was another $14.5 million under estimate, and the estate tax was $26 million under estimate. In fact, only the personal income tax and the transfers category were over estimate by any significant amount (See Table 2).

Upon closer inspection, however, only the performance of the sales tax – and perhaps the corporate franchise tax – is evidence of slackening. The underages in the estate tax, the public utility excise tax, and even federal reimbursements can be chalked up to timing. And all components of the personal income tax – withholding, quarterly estimated payments, annual

TABLE 2
GENERAL REVENUE FUND INCOME
Actual vs. Estimate
Month of October, 2000
($ in thousands)

REVENUE SOURCE			
TAX INCOME	**Actual**	**Estimate***	**Variance**
Auto Sales	$70,118	$70,550	($432)
Non-Auto Sales & Use	$423,786	$438,290	($14,504)
Total Sales	$493,904	$508,840	($14,936)
Personal Income	$543,521	$505,585	$37,936
Corporate Franchise	$22,734	$26,600	($3,866)
Public Utility	$178,106	$192,625	($14,519)
Total Major Taxes	**$1,238,265**	**$1,233,650**	**$4,615**
Foreign Insurance	$122,189	$121,250	$939
Domestic Insurance	$0	$0	$0
Business & Property	$87	$38	$49
Cigarette	$25,350	$23,800	$1,550
Soft Drink	$0	$0	$0
Alcoholic Beverage	$3,896	$4,400	($504)
Liquor Gallonage	$2,380	$2,100	$280
Estate	$2,531	$28,800	($26,269)
Racing	$0	$0	$0
Total Other Taxes	$156,432	$180,388	($23,956)
Total Taxes	**$1,394,697**	**$1,414,038**	**($19,341)**
NON-TAX INCOME			
Earnings on Investments	$0	$0	$0
Licenses and Fees	$991	$3,675	($2,684)
Other Income	$7,867	$7,918	($51)
Non-Tax Receipts	$8,859	$11,593	($2,734)
TRANSFERS			
Liquor Transfers	$9,000	$8,000	$1,000
Budget Stabilization	$0	$0	$0
Other Transfers In	$58,347	$0	$58,347
Total Transfers In	$67,347	$8,000	$59,347
TOTAL INCOME less Federal Grants	**$1,470,903**	**$1,433,631**	**$37,272**
Federal Grants	$332,492	$343,779	($11,287)
TOTAL GRF INCOME	**$1,803,395**	**$1,777,410**	**$25,985**

** July, 2000 estimates of the Office of Budget and Management.*
Detail may not add to total due to rounding.

returns, and refunds – were overestimate, as well.

That said, the performance of the sales and use tax is cause for concern for two reasons. First, the non-auto sales tax has come in under estimate by more than 2 percent for each of the four months of fiscal year 2001. The average shortfall so far this fiscal year has been 4.5 percent. If this pattern continues, the non-auto sales and use tax will end the year $240 million under estimate – under the July 2000 revised estimate, that is. (The tax would come in only 0.7 percent less than the original estimate used in developing the current budget.) Sales tax revenues would still end the year a slight 0.2 percent over last year's revenues. The second reason is the continuing slowdown in retail sales. October revenues are based largely on September retail sales, and nationwide retail sales in October and November have been even more disappointing. While this has immediate implications for sales tax revenues, it could ultimately affect personal income and personal income tax receipts, as well.

The Sales and Use Tax

Both auto and non-auto sales and use tax revenues were under estimate for the month. The auto sales tax was just slightly under estimate, but it was the first time this year that it failed to meet the estimate and so its performance adds to the rather gloomy outlook. The performance of the tax was not unexpected since vehicle sales fell sharply in October. Sales of light vehicles (cars and light trucks) were lower than any time in the past year – providing evidence that the higher gasoline prices have begun to affect consumer purchases. In fact, the wonder is that tax revenues were not even more depressed.

The disappointing non-auto sales tax revenues are harder to explain, since they largely reflect September sales and September retail sales were up a substantial 0.9 percent over August sales. On a year-over-year basis, they were up 7.5 percent.

One explanation for the disappointing revenues has to do with *where* the sales were being made. Sales at gas stations were up 18 percent over last year. Sales at drug stores were up 12 percent. Most of the items sold at these venues are not part of the sales tax base. Moreover, most of the increase was due to higher prices not greater demand. Purchases of such necessities as gasoline and many pharmaceuticals were not only *not* subject to the sales tax, but also diverted household income away from many items that were.

In the past few months the triad of high energy prices, high interest rates, and falling stock values have joined forces to effectively slow the growth of consumer discretionary spending. Gas prices, for one, are nearly double what they were a year ago. The Federal Reserve discount rate is 125 basis points – or 20 percent – higher than it was last October. The higher interest rates have had some dampening effect on the housing market. Housing starts are down substantially from the first half of 2000, dragging down sales of building materials along with them. Sales of new homes, however, continue to beat expectations, so that housing starts should bounce back when weather permits.

The long rally in the stock market – which began in 1994 – apparently peaked in March 2000. The market has been falling or trading sideways since then. The exuberant stock market carried a significant wealth effect with it: Each dollar increase in stock value led to an increase in consumption of 3 to 5 cents, so that consumer spending increased by $400 billion over what it would have been in the absence of the rising market.

The problem is that when some of that wealth is taken away, the associated spending disappears, as well. Each dollar fall in the value of stock is associated with a decrease in consumption of from 2 to 7 cents. Furthermore, the response to a fall in stock market wealth is likely to be more immediate than the response to a rise, as consumer confidence is more sensitive to falling values than to rising values.

Two other factors may also have had an impact on the “performance” of the sales and use tax. The first is Y2K. Remember Y2K?

It appears that in preparation for the crisis that never materialized, households withdrew significant funds from banks and other financial institutions. Once we were safely into the new millennium, however, instead of redepositing the funds, people spent them (or bought stocks with them, contributing to the wealth effect). This explains much of the phenomenal level of sales in the first quarter of 2000. And it explains why many of those purchasers seemed oblivious to the higher interest rates.

The second factor was the additional spending by the federal government on the 2000 census and the increased consumption of the census workers. These two factors temporarily raised the level of spending in the first half of the year creating unrealistic expectations for both retail sales and the sales and use tax for the second half of the biennium. Now that those temporary shocks are out of the picture, the reality of higher energy prices, higher interest rates, and lower stock values is hitting home. The below estimate sales and use tax revenues are one symptom of the resulting hangover.

The Personal Income Tax

The $38 million overage in the personal income tax was the largest overage in the tax this fiscal year. It was sizeable by FY 2000 standards, as well. All components of the personal income tax contributed to the overage. In particular, the $40 million overage in withholding was a sight for sore eyes, as that component came in under estimate for the two previous months. The numbers reflect increases in both employment and wages. Nationwide, employment was up in both September and October after falling in both July and August. However, the gains in October were less than expected and the gains in September were revised downward.

The still tight labor market also led to wage increases in fast growing companies. However, the continuing weakness in consumer spending is likely to put a damper on personal income tax withholding in the coming months, as businesses cut back production in response to the cooling economy. Since Ohio is home to numerous industries that are sensitive to cyclical slowdowns, withholding is expected to decline in the coming months as a result.

Quarterly estimated payments were $4.7 million over estimate for the month. This adds to the previous month’s overage and largely reflects the volatility of the stock market. As individuals sell stocks, they continue to realize capital gains, which are taxed like other income in Ohio.

Annual returns were another $6.8 million over estimate. However, refunds were also over estimate, and so reduced the overage, accordingly.

The Public Utility Excise Tax

Although the $14.5 million shortfall in the public utility excise tax was a timing issue, it was indicative of a policy change. Am. Sub. H.B. 283 of the 123rd General Assembly changed the way that the public utility excise tax was levied with respect to natural gas companies. Instead of making three “estimated payments” a year based on prior year liabilities in accordance with the general public utility excise tax, natural gas companies must now file quarterly returns and make quarterly payments covering usage in the previous calendar quarter. Therefore, natural gas companies, which are now exempt from the general public utility excise tax, were not required to make the October 15, 2000 estimated payment. Their first payment under the revised tax law is not due until November 15, 2000. This timing change was apparently not taken into consideration when OBM’s monthly revenue estimates were made in July 2000. Thus, the October public utilities excise tax revenues are roughly off by the estimated amount of revenue due from

Table 3
General Revenue Fund Income
Actual vs. Estimate
Month of October, 2000/Fiscal Year-to-Date 2001
($ in thousands)

REVENUE SOURCE					
TAX INCOME	**Actual**	**Estimate***	**Variance**	**FY 2000**	**Percent Change**
Auto Sales	$289,074	$288,425	$649	$288,462	0.21%
Non-Auto Sales & Use	$1,713,113	$1,793,248	($80,135)	$1,683,503	1.76%
Total Sales	$2,002,187	$2,081,673	($79,486)	$1,971,965	1.53%
Personal Income	$2,254,258	$2,194,357	$59,901	$2,044,585	10.26%
Corporate Franchise	$17,424	$35,150	($17,726)	$41,334	-57.85%
Public Utility	$178,369	$192,625	($14,256)	$216,054	-17.44%
Total Major Taxes	**$4,452,237**	**$4,503,805**	**($51,568)**	**$4,273,938**	**4.17%**
Foreign Insurance	$134,527	$129,438	$5,089	$127,096	5.85%
Domestic Insurance	$1,366	$0	$1,366	$83	1555.51%
Business & Property	$543	$826	($283)	$369	47.27%
Cigarette	$83,797	$82,600	$1,197	$86,165	-2.75%
Soft Drink	$0	$0	$0	$0	-100.00%
Alcoholic Beverage	$18,270	$18,838	($568)	$18,435	-0.89%
Liquor Gallonage	$9,679	$9,030	$649	$9,201	5.20%
Estate	$40,005	$59,200	($19,195)	$48,715	-17.88%
Racing	$0	$0	$0	$0	#N/A
Total Other Taxes	$288,187	$299,932	($11,745)	$290,062	-0.65%
Total Taxes	**$4,740,424**	**$4,803,737**	**($63,313)**	**$4,564,002**	**3.87%**
NON-TAX INCOME					
Earnings on Investments	$44,189	$28,750	$15,439	$20,479	115.78%
Licenses and Fees	$9,966	$8,050	$1,916	$8,902	11.96%
Other Income	$71,879	$61,528	$10,351	$38,871	84.92%
Non-Tax Receipts	$126,035	$98,328	$27,707	$68,251	84.66%
TRANSFERS					
Liquor Transfers	$32,000	$27,000	$5,000	$27,000	18.52%
Budget Stabilization	$0	$0	$0	$0	—
Other Transfers In	$61,844	$0	$61,844	$23,915	158.60%
Total Transfers In	$93,844	$27,000	$66,844	$50,915	84.32%
TOTAL INCOME less Federal Grants	**$4,960,303**	**$4,929,065**	**$31,238**	**$4,683,168**	**5.92%**
Federal Grants	$1,371,153	$1,284,751	$86,402	$1,166,943	17.50%
TOTAL GRF INCOME	**$6,331,456**	**$6,213,816**	**$117,640**	**$5,850,111**	**8.23%**

** July, 2000 estimates of the Office of Budget and Management.*
Detail may not add to total due to rounding.

natural gas companies. This revenue shortfall was more than made up for in November.

In general OBM's estimates for the public utility excise tax tend to reflect the payment schedule under the general excise tax. Thus, this timing issue is going to recur throughout fiscal year 2001.

Year-to-date Revenue

Year-to-date revenues are up 8.2 percent over FY 2000 revenues. They are over estimate by $118 million (See Table 3). Tax revenues, although up 3.9 percent over last year, are under estimate for the year by $63 million. This despite a $60 million overage in the personal income tax. The sales tax, however, more than offsets that $60 million with an $80 million underage. The corporate franchise tax kicks in another $18 million underage, and the public utility excise tax and the estate tax contribute their timing-related underages.

All of the non-tax revenue sources combine to offset the shortfall in total tax collections. Federal grants, up 18 percent over last year, remain the largest contributor at $86 million over estimate. Transfers and earnings on investment provide an additional $82 million. ❑

DISBURSEMENTS

*— Jeffrey E. Golon with Steve Mansfield**

To date, timing has cast its usual ephemeral effects on the state's disbursements, setting up monthly cycles of counteracting overages and underages. The net result is that, over time, year-to-date disbursement variances tend to shrink, as they typically self-correct and gravitate back towards the estimate. This effect has been most noticeable in the Education and Government Operations program categories. The alarming exception to this pattern has been the state's Medicaid program. With three consecutive monthly overages in tow, it has been sailing towards a fiscal crisis. This, we should note, would be of no surprise to seasoned budget watchers who witnessed last June's $110 million FY 2000 budgetary triage of the Medicaid program.

This article takes three different looks at the state's FY 2001 disbursement activity. First, we examine the most notable departmental budgets and programs that came to bear on October's monthly disbursement variance. Second, we undertake a similar examination with respect to the state's year-to-date disbursement variance. Third, we close with an outline of the state's disbursement dynamics as they have unfolded over the fiscal year's first four months (July 2000 through October 2000).

Before we look at the state's disbursements, however, there are three matters related to the Health Care program that should be laid out for the reader. First, we have to be mindful of the fact that the FY 2001 estimates were based on the program's available appropriation as of July 1, 2000. Many of us knew going in that this could be the cause of much confusion for some, as it was very clear in the waning moments of FY 2000 that the program's dominant component — Medicaid — was going to require another healthy dose of supplemental funding in FY 2001 to head off a budgetary shortfall. Thus, in the case of the Health Care program, a pattern of monthly overspending and the building of a rather large year-to-date overage were to be expected.

Second, this report marks the debut of incorporating the Children's Health Insurance (CHIP-II) program into our ongoing review of Health Care disbursements. Henceforth, we shall report on Medicaid as part of the larger Health Care program series. As a result, the program series will include two key parts: 1) the $5-plus billion Medicaid line item (600-525); and 2) the much smaller $24.0 million CHIP-II line item (600-426).

Created as a result of federal budget action in 1997, CHIP-II is a new Health Care program that was to be implemented by the state over the course of the current biennium. Its target population is uninsured children under the age of 19 in families with incomes between 150 percent and 200 percent of the federal poverty level. The cost of serving this population was estimated at $6.8 million ($4.6 million federal share) for FY 2000 and $23.8 million ($16.8 million federal share) for FY 2001. The eligibility expansion taking place under CHIP-II takes advantage of existing structures in place for Healthy Start Medicaid, such as comprehensive benefit package, health delivery, and payment systems. The federal government gave to states greater flexibility in designing the children's health coverage program, but imposed several program requirements. The Governor's Children's Health Insurance Task Force worked within these parameters to develop recommendations for CHIP-II's implementation.

CHIP-II had been scheduled to commence on January 1, 2000 to provide health care benefits to an estimated 4,400 average monthly eligible children in FY 2000, and 17,000 in FY 2001. The program, however, commenced six months later than expected, on July 1, 2000, with all implementation requirements in place, and a strategic decision by the administration to implement the program along with the Medicaid expansion to parents with family incomes at or below 100 percent of the federal poverty level.

Third, and last, the report also marks the debut of a new Medicaid service category called "Waivers." These "Waivers" provide services to meet the home care needs of consumers whose medical conditions and/or functional abilities would otherwise require them to live in a nursing home or other type of institution. This service category was previously reported in the "All Other" service category.

I. October

Excluding transfers, the state posted a $94.8 million overage for October, beyond the monthly disbursement estimate of $2.11 billion by 4.5 percent. With the sole exception of perhaps the Medicaid program, the monthly overage was largely the creation of timing issues. Incredible as it may seem, buried deep within the October overage was a mix of timing-based underages totaling around $180 million related to the early posting of certain debt service payments in September. Those early postings produced a bunch of September overages, which as expected, self-corrected in October.

Our discussion of the principal departmental budgets and programs that produced the October disbursement variance appears immediately below. The overage components, arranged in order of the magnitude of their contribution to October's disbursement variance, are discussed first, followed by a narrative outlining the notable monthly underages. The reader is directed as well to Table 4, which provides a more detailed picture of October's disbursement variances by program category.

Regents. For October, the Board of Regents dramatically exceeded estimated monthly spending of $292.5 million by $96.8 million, or 33.1 percent. This monthly disbursement variance was almost entirely attributable to the timing of a $106.9 million debt service payment. The estimate assumed that the debt service payment would land in November; instead it hit a month early, roughly doubling the expected October debt payment to $210.8 million. Also contributing to the overage was the board's Jobs Challenge funding, with a $2.8 million performance grant earmarked for EnterpriseOhio Network campuses being disbursed a month or so ahead of schedule.

Somewhat mitigating the impact of these twin timing-based overages on the board's October disbursement variance were two factors. First, the Ohio Student Choice Grant program posted a $10.1 million underage, reflecting a timing-based adjustment to the prior month in which $9.8 million of student financial assistance more than forecast was disbursed to Ohio's independent nonprofit colleges and universities. Second, the Ohio Instructional Grant (OIG) program, which provides financial assistance to needy students, registered a $3.7 million underage, principally due a slower than expected data reconciliation process in combination with the implementation of a new web-based data submission system.

Health Care/Medicaid. October's disbursements in the Health Care program were $76.6 million, or 14.7 percent, above the estimated monthly spending of $521.9 million. This overspending, which marked the third consecutive monthly overage posted by the Health Care program since the fiscal year started four months ago, was primarily a function of four Medicaid service categories: 1) Hospitals ($22.3 million); 2) Prescription Drugs ($18.2 million); 3) Nursing Homes ($13.8 million); and 4) All Other ($7.7 million). October's Health Care disbursements were largely influenced by higher than anticipated caseloads across all eligibility categories as well as higher than expected health care cost growth, the net result of which was higher than forecast spending across all service categories. (We've provided a more detailed visual picture of October's Health Care disbursement activity in Table 6.)

Table 4
General Revenue Fund Disbursements
Actual vs. Estimate
Month of October, 2000
($ in thousands)

USE OF FUNDS

PROGRAM	Actual	Estimate*	Variance
Primary & Secondary Education (1)	$505,324	$458,781	$46,543
Higher Education	$389,340	$292,537	$96,804
Total Education	$894,664	$751,318	$143,347
Health Care/Medicaid	$598,587	$521,923	$76,665
Temporary Assistance to Needy Families (TANF)	$92,144	$109,506	($17,363)
General/Disability Assistance	$6,549	$6,332	$218
Other Welfare (2)	$58,697	$61,676	($2,979)
Human Services (3)	$108,917	$108,124	$793
Total Welfare & Human Services	$864,894	$807,562	$57,333
Justice & Corrections	$204,817	$243,590	($38,773)
Environment & Natural Resources	$13,193	$9,466	$3,726
Transportation	$3,004	$2,408	$596
Development	$15,658	$30,046	($14,388)
Other Government (4)	$23,854	$88,788	($64,934)
Capital	$21,080	$2,648	$18,432
Total Government Operations	$281,608	$376,948	($95,340)
Property Tax Relief (5)	$165,065	$168,884	($3,819)
Debt Service	$0	$6,682	($6,682)
Total Program Payments	**$2,206,230**	**$2,111,393**	**$94,837**
TRANSFERS			
Local Govt. Distribution	$0	$0	$0
Budget Stabilization	$0	$0	$0
Other Transfers Out	$745	$0	$745
Total Transfers Out	$745	$0	$745
TOTAL GRF USES	**$2,206,975**	**$2,111,393**	**$95,582**

(1) Includes Primary, Secondary, and Other Education.
(2) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services.
(3) Includes the Department of Job & Family Services, exclusive of Medicaid, TANF, and General/Disability Assistance.
(4) Includes Regulatory and Nonregulatory agencies, Pension Subsidies, and Reissued Warrants.
(5) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

** August 2000 estimates of the Office of Budget and Management.*
Detail may not add to total due to rounding.

Education. The Department of Education recorded a $49.8 million positive disbursement variance for the month of October, over the estimate by 11.2 percent. There were two principal elements behind the overage: 1) bus purchase allowances ($29.6 million); and 2) Head Start subsidies ($26.0 million). The former reflected the fact that the Controlling Board had approved the release of funds to assist school districts with bus purchases a month earlier than was forecast, while the latter reflected a delay in the release of Head Start grants, as the necessary paperwork was not processed on time. A more distant contributor to the monthly overage was line item 200-514, Post-Secondary/Adult Vocational Education, which chipped in $10.0 million of funding for full-time and part-time adult vocational training programs offered by school districts, joint vocational school districts, and other educational institutions. Essentially, $6.7 million in vocational education subsidies was released in October as opposed to November as previously planned plus the department made a $3.3 million FY 2000 payment adjustment ahead of schedule.

Countering this trio of monthly overages was line item 200-501, Base Cost Funding, with an October underage of $16.1 million. This disbursement variance was tied to the fact that: 1) the department had yet to make its final FY 2000 payment adjustments; and 2) the fall student data count would not be available until early next year.

Capital. Fueled largely by an unanticipated amount of spending by the Department of Administrative Services, the Capital program recorded a positive disbursement variance of $18.4 million. Essentially, a very large chunk of capital funding earmarked for various rural and urban community assistance projects was released earlier than expected by the Controlling Board.

Development. Timing was the key influence on the Department of Development's $8.0 million overage posted for the month of October. The primary factor in this disbursement variance was the unscheduled release of Business Development grants totaling $5.4 million. There was also a timing-based adjustment that affected the Thomas Edison grant program and added another $1.8 million to the department's monthly overage.

Mental Retardation. The Department of Mental Retardation & Developmental Disabilities posted October disbursements in excess of the monthly estimate by $5.5 million, or 23.0 percent. The lead element in the overage with $6.8 million was line item 323-321, Residential Facilities Operations, which supports the operating expenses of the state's 12 developmental centers. Countering the impact of this overage was a $2.7 million underage tossed in from line item 322-413, Residential & Support Services, which carries funding for services delivered to individuals with mental retardation or developmental disabilities. Both disbursement variances were largely adjustments to prior monthly underages and overages, respectively.

Notable Underages. Seven departmental budgets produced a set of notable monthly underages totaling $173.4 million. These seven monthly underages, arranged in order of magnitude, are commented on below.

Administrative Services. For October, the Department of Administrative Services registered a $68.3 million underage, fueled by the timing of debt service payments made to the Ohio Building Authority for rent and operating costs on state-owned buildings. The estimate assumed that these debt service payments would hit in October; the reality was that they posted in September, a month earlier than expected. Thus, the large October underage was simply an expected adjustment.

Rehabilitation & Correction. For October, the Department of Rehabilitation & Correction recorded a $45.9 million negative disbursement variance, primarily due to the timing of an $82.8 million debt service payment. The estimate assumed that the debt service payment would land in October; the reality was that it hit in September, a month earlier than expected. Thus, the large October debt service underage was simply an expected adjustment. Substantially mitigating the impact of this debt service payment correction on the department's October disbursement variance was a collection of $38.5 million in timing-based overages traceable to various correctional institution programs. As of this writing, it appeared to be related to when one of the department's two-week payrolls posted.

Arts & Sports Facilities. For October, the Arts & Sports Facilities Commission recorded a $22.9 million underage, due entirely to the timing of a debt service payment to finance the capital costs of certain arts and sports facilities projects. The estimate assumed that the debt service payment would land in October; the reality was that it hit in September, a month earlier than expected. Thus, the large October underage was simply an expected adjustment.

TANF. October's disbursements in the Temporary Assistance to Needy Families (TANF) program were $17.4 million, or 15.9 percent, below the estimated monthly spending of $109.5 million. The disbursement variance was driven by line items 600-411, TANF Federal Block Grant, and 600-410, TANF State, with underages of $12.2 million and $6.5 million, respectively. The primary force behind these underages was lower than anticipated county advance payments, with a decline in the Ohio Works First (OWF) cash assistance caseload also acting as a smaller but still significant brake on TANF's October spending.

Relative to September, the number of OWF cases declined by 3,584, from 95,528 to 91,944, and the total number of recipients declined by 13,088, from 237,358 to 224,270. The decline in caseload was strongly affected by the removal of approximately 3,800 assistance groups from the caseload in October due to the 36-month time limit on the receipt of cash benefits. As a result, total cash benefit payments dropped from $29.9 million in September to $28.6 million in October.

While the overall cash benefit caseload declined in October, the number of "child only" cases rose to 37,468, up 359 cases from the month before. These are cases in which the children are typically living with a relative other than a parent. Some "child only" cases may also occur when the parent is receiving assistance from another program and thus is not eligible for a TANF cash benefit. "Child only" cases now compose 40 percent of the total OWF caseload. These cases are not subject to the 36-month time limit.

Mental Health. For October, the Department of Mental Health posted a negative disbursement variance of $8.4 million, under the monthly estimate by 13.0 percent. Virtually all of the monthly underage was traceable to the department's three largest GRF line items, all of which essentially provide subsidy payments to county mental health boards. The line items — 334-408, Community & Hospital Mental Health Services, 335-508, Services for Severely Mentally Disabled, and 335-502, Community Mental Health Services — were $4.0 million, $2.6 million, and $2.2 million under their monthly estimates, respectively.

As we mentioned in last month's report, in an attempt to more accurately reflect the department's subsidy spending pattern, the Office of Budget and Management based its FY 2001 monthly disbursement estimates on the FY 2000 spending history. It turned out, however, that October 2000 did not mirror the October 1999 experience; as county mental health boards no longer needed to draw down funds early in order to meet cash flow needs as they did last fiscal year. This break from the expected produced the October underage, which like the September underage before it, was no more than a timing-based event that will self-correct.

Debt Service. The Commissioners of the Sinking Fund, whose role it is to issue and pay the debt service on certain capital improvements programs, closed October with a $6.7 million negative disbursement variance. This monthly underage was related entirely to the financing of debt that supports the Department of Natural Resources' NatureWorks program, which funds various parks, recreation, and natural resource projects. The debt service payment was expected to hit in October, but actually landed in September. Thus, the October underage was simply an expected adjustment.

Property Tax Relief. The Property Tax Relief program, which reimburses local governments for revenue that is lost due to certain credits/exemptions provided by state law to property owners and businesses, posted a $3.8 million underage for the month of October, off the estimate by 2.3 percent. Upon closer inspection, two things were clear. First, all of the disbursement variance was related to real property tax relief, which was not surprising given that the other major part of the state's Property Tax Relief program — tangible tax relief — was not scheduled to initiate spending until November. Second, the departments of Education and Taxation, which reimburse school districts and local governments other than school districts, respectively, for lost revenue, closed the month with contrasting disbursement variances. The Department of Taxation posted a $28.6 million underage, while the Department of Education posted a $24.8 million overage, the net result being a $3.8 million October underage. That said, these disbursement variances were typical of the fashion in which timing affects the flow of tax relief funding to various local governments, including school districts.

II. Year-to-Date

At October's end, excluding transfers, the state was in possession of a $218.0 million positive year-to-date disbursement variance, over the $7.46 billion estimate by 2.9 percent. This was largely the work of timing, with the clear exceptions to this generalization being the Medicaid and Disability Assistance programs where caseloads and related costs were rising and budgetary shortfalls loomed on the horizon.

Our discussion of the departmental budgets and programs, arranged in order of the magnitude of their contribution to the state's year-to-date overage, appears immediately below. It is followed by a discussion of five notable year-to-date underages. The reader's attention is also directed to Table 5, which provides a more detailed picture of year-to-date disbursement variances by program category.

Health Care/Medicaid. Year-to-date, disbursements from the Health Care program were $148.4 million, or 7.2 percent, above estimated spending of $2.06 billion. With the exception of the Medicare Buy-In payment, all of the Health Care service categories contributed to pushing the program's year-to-date disbursements above the estimate. In order of magnitude, the most important contributors were as follows: 1) Nursing Homes ($34.1 million); 2) All Other ($32.4 million); 3) Prescription Drugs ($29.6 million); 4) Physicians ($16.5 million); and 5) Hospitals ($15.8 million). As was the case with its October disbursements, Health Care's year-to-date disbursements have been largely influenced by higher than anticipated caseloads across all eligibility categories as well as higher that expected health care cost growth, the net result of which was higher than forecast spending across all service categories. (A more detailed visual picture of year-to-date Health Care disbursement activity, as well as a spending comparison with FY 2000, is contained in Tables 6 and 7, respectively.)

Regents. The Board of Regents closed October with a $109.4 million positive year-to-date disbursement variance, over estimated spending of $850.4 million by 12.9 percent. The two primary pieces to this spending story were identical to those previously noted in our discussion of the board's monthly disbursement variance for October: 1) debt service payments ($106.9 million); and 2) Jobs Challenge funding ($7.0 million). Both of these overages were no more than matters of timing. Also in the board's year-to-date disbursement mix was a $5.1 million underage emanating from the Ohio Instructional Grants (OIG) program, a source of financial assistance for needy students. It experienced a sluggish disbursement pace due to a slower than expected data reconciliation process in combination with the implementation of a new web-based data submission system.

Capital. Year-to-date, the Capital category's disbursements were in excess of the estimate by $18.3 million, largely attributable to an earlier than expected release from the Department of Administrative Services' budget of $18-plus million in earmarked funds for various rural and urban community assistance projects.

Mental Retardation. The Department of Mental Retardation & Developmental Disabilities closed October with a $19.6 million

Table 5
General Revenue Fund Disbursements
Actual vs. Estimate
Fiscal Year-to-Date 2001
($ in thousands)

USE OF FUNDS					
PROGRAM	**Actual**	**Estimate***	**Variance**	**FY 2000**	**Percent Change**
Primary & Secondary Education (1)	$2,000,106	$2,018,790	($18,684)	$1,814,097	10.25%
Higher Education	$959,937	$850,442	$109,495	$813,374	18.02%
Total Education	$2,960,043	$2,869,231	$90,812	$2,627,471	12.66%
Health Care/Medicaid	$2,203,505	$2,055,058	$148,447	$1,789,378	23.14%
Temporary Assistance to Needy Families (TANF)	$289,875	$329,847	($39,971)	$240,728	20.42%
General/Disability Assistance	$25,456	$24,223	$1,232	$20,466	24.38%
Other Welfare (2)	$236,924	$255,813	($18,890)	$202,577	16.95%
Human Services (3)	$445,119	$449,019	($3,900)	$470,223	-5.34%
Total Welfare & Human Services	$3,200,878	$3,113,960	$86,918	$2,723,372	17.53%
Justice & Corrections	$701,337	$671,607	$29,730	$657,841	6.61%
Environment & Natural Resources	$63,566	$58,125	$5,441	$59,021	7.70%
Transportation	$11,575	$13,002	($1,427)	$12,577	-7.97%
Development	$84,090	$77,559	$6,531	$58,390	44.01%
Other Government (4)	$178,588	$196,706	($18,118)	$176,034	1.45%
Capital	$29,445	$11,126	$18,319	$7,808	277.13%
Total Government Operations	$1,068,601	$1,028,125	$40,476	$971,671	9.98%
Property Tax Relief (5)	$342,152	$342,461	($309)	$320,401	6.79%
Debt Service	$104,303	$104,203	$100	$95,676	9.02%
Total Program Payments	**$7,675,977**	**$7,457,980**	**$217,997**	**$6,738,592**	**13.91%**
TRANSFERS					
Local Govt. Distribution	$0	$0	$0	$0	—
Budget Stabilization	$49,200	$49,200	$0	$46,400	6.03%
Other Transfers Out	$780,455	$621,692	$158,763	$763,341	2.24%
Total Transfers Out	$829,655	$670,892	$158,763	$809,741	2.46%
TOTAL GRF USES	**$8,505,632**	**$8,128,872**	**$376,760**	**$7,548,332**	**12.68%**

(1) Includes Primary, Secondary, and Other Education.
(2) Includes Mental Health, Mental Retardation and Developmental Disabilities, and Other Human Services.
(3) Includes the Department of Job & Family Services, exclusive of Medicaid, TANF, and General/Disability Assistance.
(4) Includes Regulatory and Nonregulatory agencies, Pension Subsidies, and Reissued Warrants.
(5) Includes property tax rollbacks, homestead exemption, and tangible property tax exemption.

** August 2000 estimates of the Office of Budget and Management.*
Detail may not add to total due to rounding.

positive year-to-date disbursement variance, over estimated spending of $139.3 million by 14.1 percent. The primary contributor to the disbursement variance was line item 322-413, Residential & Support Services, with an overage of $15.4 million, an indication that service provider payments were being processed faster than was forecast. A more distant secondary contributor was line item 323-321, Residential Facilities Operations, with an overage of $2.6 million, as spending at the state's 12 developmental centers was running slightly ahead of schedule. Neither of these overages was attributed to anything other than timing.

Rehabilitation & Correction. At the close of October, the Department of Rehabilitation & Correction's year-to-date disbursements were

Table 6
Health Care Spending in FY 2001
Medicaid (600-525)*

Service Category	October '00 Actual	October '00 Estimate	October '00 Variance	October '00 Percent Variance	Year-to Date Spending Actual** thru' Oct.	Year-to Date Spending Estimate** thru' Oct.	Year-to Date Spending Variance	Year-to Date Spending Percent Variance
Nursing Homes	$190,580,909	$176,792,388	$13,788,521	7.8%	$757,136,876	$723,056,114	$34,080,762	4.7%
ICF/MR	$31,804,201	$29,242,233	$2,561,968	8.8%	$126,416,845	$119,822,352	$6,594,493	5.5%
Hospitals	$146,232,053	$123,912,444	$22,319,609	18.0%	$497,909,528	$482,073,431	$15,836,097	3.3%
Inpatient Hospitals	$107,610,403	$90,420,905	$17,189,498	19.0%	$363,533,724	$354,724,933	$8,808,791	2.5%
Outpatient Hospitals	$38,621,650	$33,491,539	$5,130,111	15.3%	$134,375,804	$127,348,498	$7,027,306	5.5%
Physicians	$38,891,457	$32,748,239	$6,143,218	18.8%	$137,161,895	$120,710,211	$16,451,684	13.6%
Prescription Drugs	$82,372,017	$64,128,959	$18,243,058	28.4%	$278,379,454	$248,768,282	$29,611,172	11.9%
Payments	$98,723,781	$88,192,989	$10,530,792	11.9%	$335,129,391	$317,125,756	$18,003,635	5.7%
Rebates	$16,351,764	$24,064,030	($7,712,266)	-32.0%	$56,749,937	$68,357,474	($11,607,537)	-17.0%
Waiver[1]	$13,053,595	$11,739,488	$1,314,107	11.2%	$45,670,384	$41,155,856	$4,514,528	11.0%
HMO	$33,132,026	$31,114,081	$2,017,945	6.5%	$134,636,802	$128,056,974	$6,579,828	5.1%
Medicare Buy-In	$9,850,322	$9,384,980	$465,342	5.0%	$38,012,777	$39,036,645	($1,023,868)	-2.6%
All Other***	$50,042,829	$42,324,944	$7,717,885	18.2%	$183,872,766	$151,453,301	$32,419,465	21.4%
Total (600-525)	$595,959,408	$521,387,756	$74,571,652	14.3%	$2,199,197,327	$2,054,133,166	$145,064,161	7.1%
CAS	$595,949,686		$74,561,930	14.3%	$2,199,170,268		$145,037,102	7.1%
Est. Federal Share	$350,364,536	$306,523,862	$43,840,674		$1,292,908,110	$1,207,624,889	$85,283,220	
Est. State Share	$245,594,872	$214,863,894	$30,730,978		$906,289,220	$846,508,279	$59,780,941	
Children's Health Insurance Plan (CHIP-II), (600-426)*[2]								
Total (600-426)	$2,637,559	$534,885	$2,102,674	393.1%	$4,335,939	$924,523	$3,411,416	369.0%
Est. Federal Share	$1,874,777	$380,196	$1,494,581		$3,081,986	$657,151	$2,424,834	
Est. State Share	$762,782	$154,689	$608,093		$1,253,955	$267,373	$986,582	
Total Health Care	*$598,596,967*	*$521,922,641*	*$76,674,326*	*14.7%*	*$2,203,533,267*	*$2,055,057,689*	*$148,475,578*	*7.2%*

* This portion of the table only includes Medicaid spending through Job & Family Services' 600-525 line item.

** Includes spending from prior year encumbrances in the All Other category.

*** All Other, includes all other health services funded by 600-525.

1. Waivers provide home care alternatives to consumers whose medical conditions/functional abilities would otherwise require Long Term Care facility residence. Prior to FY 2001, reported in "All Other" category.

*2. This portion of the table only includes CHIP-II spending through Job & Family Services' 600-426 line item. CHIP-II effective 7/1/2000, provides health care coverage for children under age 19, with family incomes between 150-200% of FPL.

Source: BOMC8300-R001, BOMC8350-R001&R002 Reports, Ohio Department of Job & Family Services.

over the estimate by $18.1 million, or 3.6 percent. The overage had two dominant components that tied back to the department's daily operating expenses. The first overage component contained $10.0 million in operating expenses funding that had been encumbered from prior fiscal years for disbursement in FY 2001. The second overage component contained $7.7 million in operating expenses funding that had been appropriated for the current budget year. Both of these overages were no more than matters of timing that should self-correct in the months ahead.

Youth Services. Year-to-date, the Department of Youth Services' disbursements posted $6.5 million, or 7.1 percent, higher than was forecast. The overage was traceable to two primary budget elements: 1) RECLAIM Ohio ($3.5 million); and 2) the Youth Services Block Grant program ($1.8 million). Both appeared to be no more than victims of timing.

Development. Due largely to timing issues, year-to-date disbursements for the Department of Development were $6.4 million, or 13.9 percent, over the estimate at the close of October. This disbursement variance was primarily driven by the unscheduled release of Business Development grants totaling $7.8 million. Somewhat muting the size of the disbursement variance was a $3.3 million timing-based underage associated with the Technology Action grants program, due

Table 7
FY 2001 to FY 2000 Comparison* of Year-to-Date Medicaid (600-525) Spending

Service Category	FY 2001[1, 4] Yr.-to-Date as of Oct. '00	FY 2000[1, 3, 4] Yr.-to-Date as of Oct. '99	Variance	Percent Variance
Nursing Homes	$757,136,876	$688,186,392	$68,950,484	10.0%
ICF/MR	$126,416,845	$116,256,835	$10,160,010	8.7%
Hospitals	$497,909,528	$392,377,683	$105,531,844	26.9%
Inpatient Hospitals	$363,533,724	$291,466,781	$72,066,943	24.7%
Outpatient Hospitals	$134,375,804	$100,910,903	$33,464,901	33.2%
Physicians	$137,161,895	$90,386,189	$46,775,706	51.8%
Prescription Drugs	$278,379,454	$200,173,409	$78,206,045	39.1%
Payments	$335,129,391	$263,009,669	$72,119,722	27.4%
Rebates	$56,749,937	$62,836,259	($6,086,322)	-9.7%
Waiver[2]	$45,670,384	$35,334,443	$10,335,941	29.3%
HMO	$134,636,802	$120,703,527	$13,933,276	11.5%
Medicare Buy-In	$38,012,777	$41,198,493	($3,185,716)	-7.7%
All Other***	$183,872,766	$104,761,145	$79,111,621	75.5%
TOTAL (600-525)	$2,199,197,327	$1,789,378,116	$409,819,211	22.9%
Est. Federal Share	$1,292,908,110	$1,043,812,252	$249,095,858	23.9%
Est. State Share	$906,289,220	$745,565,866	$160,723,354	21.6%

* This table only includes Medicaid spending through Job & Family/Human Services' 600/400-525 line item[3].
*** All Other, includes all other health services funded by 600-525.

1. Includes spending from prior year encumbrances in the "All Other" category.
2. Waivers provide home care alternatives to consumers whose medical conditions/functional abilities would otherwise require Long Term Care facility residence. Prior to FY 2001, reported in "All Other" category.
3. FY 2000 and all prior years' spending occurred through the Human Services' 400-525 line item.
4. CHIP/HS Phase I service payments are rolled into the 600-525 account for FY 2001. For FY 2000, total CHIP/HS-I spending of $66.6 million occurred through the Human Services' 400-671/623 line items.

Note: For comparison purposes, this table does not include CHIP-II, since it was implemented in FY 2001.

essentially to the fact that the spending of encumbered funding from prior fiscal years had moved slower than was forecast.

Natural Resources. The Department of Natural Resources closed October with a positive year-to-date disbursement variance of $5.4 million, in excess of the estimate by 12.6 percent. The principal element in the disbursement variance was a $3.0 million overage related to the release of subsidy funding to county soil and water conservation districts. Simply put, county soil and water conservation districts got the necessary paperwork to the department much more quickly than was assumed would be the case. Also contributing to the disbursement variance was a $1.0 million overage from line item 725-425, Wildlife License Reimbursement. The funds in this line item, appropriated to reimburse the department's Wildlife Fund for the cost of issuing hunting and fishing licenses to fee-exempt individuals, were transferred in August rather than in December as expected. The August transfer was actually consistent with the department's practice of moving the funds at the beginning of each fiscal year.

GA/DA. At the end of October, the state's General/Disability Assistance program was holding a $1.2 million overage, in excess of the estimate by 5.1 percent. The driving force in the disbursement variance was the Department of Job & Family Services' $63-plus million Disability Assistance (DA) program, a state- and county-funded effort that provides cash and/or medical assistance to persons ineligible for public assistance programs that are supported in whole or in part by federal funds. Since the fall of 1999, the cash assistance caseload has exceeded the forecast on which the current biennial budget for the DA program was based. At the end of October, the cash assistance caseload stood at 11,040 and has been running consistently over the monthly cash assistance caseload estimate by approximately 1,500. Conversely, the medical assistance caseload has declined to a point where it is tracking slightly below the monthly medical assistance caseload estimate.

The DA program's original FY 2000 appropriation was $58.2 million. With the cash assistance caseload slowly but unexpectedly increasing and a budget shortfall on the horizon, $2.1 million in supplemental GRF funding was added to the DA program via Am. Sub. H.B. 640, a capital appropriations and budget modifications act. That increase, however, proved insufficient, and a portion of the DA benefits payments had to be pushed into FY 2001. A similar budgetary shortfall was expected in FY 2001, which, at this time, the department estimates at $10.7 million.

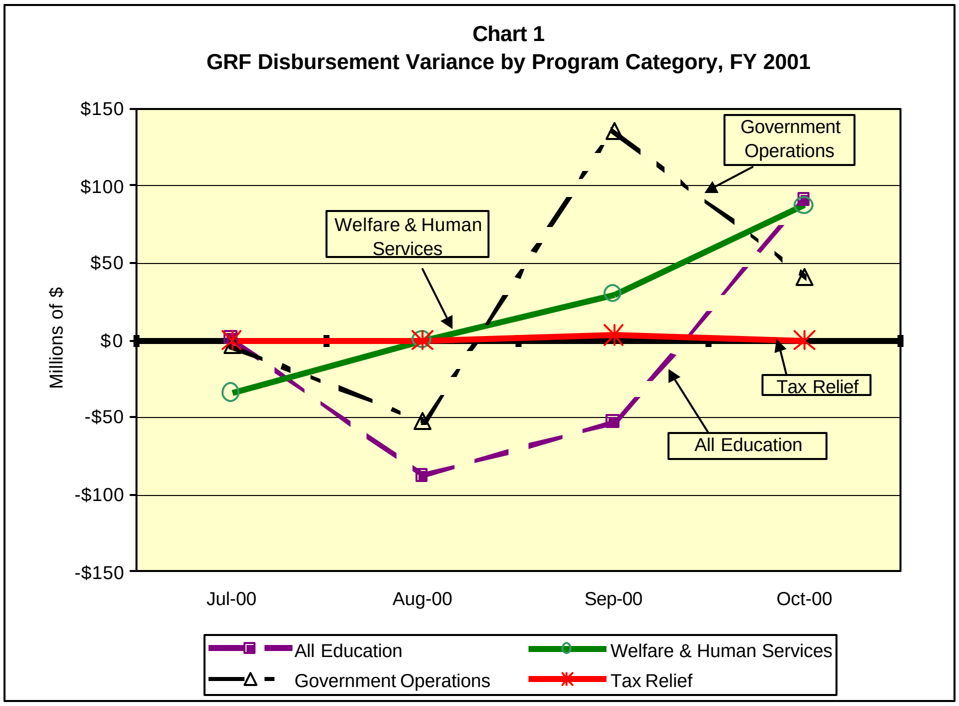
Notable Underages. There were five notable underages totaling $112.9 million in the state's year-to-date disbursement picture, all of which are discussed below.

TANF. Year-to-date, Temporary Assistance to Needy Families (TANF) program disbursements were $40.0 million, or 12.1 percent, below estimated spending of $329.8 million, all of which was attributable to line item 600-411, TANF Federal Block Grant. As we reported in last month's disbursements discussion, this underspending in line item 600-411 was at least partially the result of unscheduled disbursements from the non-GRF Child Support Collections Fund, which is used as part of the funding mix that meets the state's required maintenance of effort (MOE). (Disbursements of this MOE component typically occur later in the fiscal year.) It also now appeared that the federal Special Activities/Self Sufficiency Fund, which contains a very large chunk previously reserved funds from the state's federal TANF block grant, may also be influencing line item 600-411's underspending. So far this fiscal year, $61.6 million of these previously reserved funds have been disbursed for: 1) use in the Prevention, Retention, and Contingency Reserve (PRC-DR) program; 2) as incentive money to counties; and 3) for child day care costs.

Mental Health. The Department of Mental Health ended October with an underage of $25.4 million, off the estimate 12.2 percent. As usual, most of the underage was traceable to the department's three largest GRF county mental health board subsidies: 334-408, Community & Hospital Mental Health Services ($16.5 million); 335-502, Community Mental Health Programs ($4.8 million); and 335-508, Services for Severely Mentally Disabled ($3.2 million). The source of the disbursement variance was that the department's current year subsidy disbursements had not mirrored the prior fiscal year's as was assumed would be the case when the FY 2001 estimates were built. This was, however, no more than a matter of timing that will self-correct in the months ahead.

Job & Family Services. Year-to-date, disbursements for the Department of Job and Family Services' operating expenses and subsidy programs — exclusive of Medicaid, TANF and General/Disability Assistance, which are tracked under separate components of the Welfare & Human Services program category, and inclusive of former Bureau of Employment Services programs — were $18.9 million, or 7.4 percent, under the estimate, largely owing to timing issues. Three programs accounted for the bulk of the year-to-date underage as follows: 1) electronic benefits transfer ($4.8 million); 2) computer projects ($4.3 million); and 3) adoption services ($4.0 million). In order, the development of these programmatic underages was tied to: 1) slower than expected contractor billings; 2) unexpected delays in several computer projects, including SACWIS (the Statewide Automated Child Welfare Information System); and 3) sluggish reimbursements to counties for various adoption costs.

Other areas of the departmental budget that contributed smaller, largely timing-based components to the year-to-date underage included, in order of magnitude: county social



services ($2.9 million); child support administration ($2.0 million); adult protective services ($1.7 million); and burial claims ($1.6 million).

Education. Year-to-date, the Department of Education posted a negative disbursement variance of $15.8 million, short of the estimate by 0.8 percent. Driving the disbursement variance was line item 200-501, Base Cost Funding, with an underage totaling $65.7 million, attributable to two factors previously noted in our discussion of the department's October disbursement variance: 1) the department had yet to make its final FY 2000 payment adjustments; and 2) the fall student data count would not be available until early 2001.

The impact of this rather large Base Cost Funding underage was in turn diluted by overages posted in three department line items as follows: 1) 200-503, Bus Purchase Allowance ($31.7 million); 2) 200-514, Post-Secondary/ Adult Vocational Education ($10.4 million); and 3) 200-534, Desegregation Costs ($6.8 million). In order, the appearance of these line item overages was related to: 1) the release of funds to assist school districts with bus purchases earlier than was forecast; 2) the release of funding for full-time and part-time adult vocational training programs offered by school districts, joint vocational school districts, and other educational institutions, including FY 2000 payment adjustments, ahead of schedule; and 3) the early release of $6-plus million in earmarked desegregation cost assistance for the Dayton City Schools.

Administrative Services. Year-to-date, the Department of Administrative Services was holding a $12.8 million negative disbursement variance, short of the estimate by 13.9 percent. Over 60.0 percent of the underage was attributable to the department's computer services programs, which provide computing and communications services to other state agencies. Most notably, the Multi-Agency Radio Communications System (MARCS) along with various Strategic Technology projects have not progressed as quickly as had assumed would be the case when the estimates were assembled last August.

III. Program Category Variances

In Chart 1, we've visually mapped from July through October the trajectory of the year-to-date disbursement variances of four of the state's major GRF program categories. This is intended to help us see how the state came to be holding a $218.0 million year-to-date overage by October's end. In the narrative below, we've distilled the essence of the four-month disbursement patterns exhibited by those four major program categories.

Education (+$90.8 million). The Education program category cycled under and then over the estimate in the months of August and September, respectively, led by timing-based disbursement variances posted in various state subsidy programs administered by the Department of Education. In October, the program category's disbursement variance was dominated by the Board of Regents, the result of a $100-plus million debt service payment posting a month earlier than scheduled.

Welfare/Human Services (+$86.9 million). The fiscal effects of timing on the Welfare & Human Services program category's year-to-date disbursement pattern were very evident, particularly with regard to the distribution of subsidy funding and service provider payments by the departments of Mental Retardation & Developmental Disabilities, Mental Health, and Alcohol & Drug Addiction Services. There were, however, three areas of spending handled by the newly created Department of Job & Family Services that appeared to be victims of something other than timing: computer projects, Medicaid, and Disability Assistance. The former featured an underage due to unexpected delays in the development of several large departmental computer systems, while the latter two showed growing overages that, unabated, signal funding shortfalls that will require legislative action.

Government Operations (+$40.5 million). Timing has played the key role in the Government Operations program category's year-to-date disbursements. It first constrained corrections and pension subsidy spending in August and then facilitated the early disbursement of close to $180 million in debt service payments that were forecast to hit in October. As expected, the program then self-corrected in October by posting several large debt-service driven underages.

Tax Relief (-$0.3 million). As evidenced in Chart 1, the state's Property Tax Relief program has played virtually no role in the year-to-date disbursement picture. Year-to-date, it's posted a barely noticeable timing-based underage of $309,357.

**LBO colleagues who contributed to the development of this disbursements article included, in alphabetical order, Ogbe Aideyman, Sara Doddy, Nelson Fox, Amy Frankart, Sybil Haney, Eric Karolak, Laura Potts, David Price, Nicole Ringer, Joseph W. Rogers, Jeffrey M. Rosa, Katherine B. Schill, and Wendy Zhan.*

TANF Spending Update

TRACKING TANF EXPENDITURES BY CATEGORY, FFY 1997 – FFY 2000

— Steve Mansfield

The Temporary Assistance to Needy Families (TANF) program was created by federal legislation known as the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. PRWORA abolished the entitlement-oriented Aid to Families with Dependent Children (AFDC) program, the Job Opportunity and Basic Skills (JOBS) program, and the Emergency Assistance (EA) program. PRWORA was implemented in Ohio in October 1997 through Am. Sub. H.B. 408 of the 122nd General Assembly. H.B. 408 created the Ohio Works First (OWF) program and the Prevention, Retention, and Contingency (PRC) program.

Under the old AFDC, JOBS, and EA programs the states received matching funds from the federal government in exchange for state expenditures. In the largest of these programs, AFDC, Ohio received from the federal government about $1.50 for each dollar spent.

The TANF program replaced a matching grant system with a flat-funded block grant that required the states to maintain a historical level of spending (called the Maintenance of Effort, or MOE, requirement). Under TANF, Ohio's annual TANF grant from the federal government is $727,968,260. Ohio's MOE requirement may be met with a minimum state expenditure of $390.8 million (i.e., with certain conditions being met first). In FFY 2000, Ohio spent slightly over this minimum with a total MOE expenditure of $392.9 million. For FFY 2000, Ohio received about $1.85 in federal TANF funds for every $1 of state expenditures. The TANF program will face reauthorization in the federal budget for the FFY beginning October 1, 2002.

TANF Expenditures by Component, FFY 1997 -- 2000

Ohio's expenditures of federal TANF funds are reported to the federal government on a quarterly basis on TANF Form ACF196. The expenditures of federal funds are reported against the TANF federal grant award that was made in a specific federal fiscal year. Thus in a particular quarter, expenditures from federal funds may be filed simultaneously against the awards that were made in different years. In contrast to federal dollars, state TANF expenditures are reported against the state's MOE requirement, so that what is spent in a particular federal fiscal year counts against that year's MOE requirement. Beginning with federal fiscal year 2000, quarterly reports have been submitted on a new version of ACF196, which was revised to include several new components or subcomponents. *Table 1* includes five of the new components: transportation, individual development accounts, diversion payments, prevention of out-of-wedlock pregnancies, and parent family formation and maintenance.

TABLE 1: OHIO TANF FEDERAL BLOCK GRANT EXPENDITURES BY CATEGORY	FFY 1997 Award	FFY 1998 Award	FFY 1999 Award	FFY 2000 Award	Expenditures To-Date	% of Total To-Date
Cash & Work Based Assistance	$435,546,255	$197,819,005	$65,943,862	$107,989,444	$807,298,566	44.32%
Work Activities	3,792,305	16,113,133	4,253,244	72,901,341	97,060,023	5.33%
Child Care	5,245,155	29,416,442	73,762,807	0	108,424,404	5.95%
Transportation	--	--	--	7,355,906	7,355,906	0.40%
Individual Dev. Accounts	--	--	--	14,925	14,925	0.00%
Diversion Payments	--	--	--	30,148,424	30,148,424	1.66%
Prev. of Out-of-Wed. Preg.	--	--	--	216,596	216,596	0.01%
Parent Family Form. & Maint.	--	--	--	267,867	267,867	0.01%
Administration	46,886,670	38,048,953	48,530,383	71,188,680	204,654,686	11.23%
Information Systems	0	14,562,288	31,370,732	50,825,621	96,758,641	5.31%
Other Expenditures	154,566,020	152,546,720	58,070,268	104,204,870	469,387,878	25.77%
TOTAL EXPEND.	$646,036,405	$448,506,541	$281,931,296	$445,113,674	**$1,821,587,916**	100.00%
Federal Grant Award	$727,968,260	$727,968,260	$727,968,260	$727,968,260	**$2,911,873,040**	
Transfer to Title XX	$72,796,826	$72,796,826	$72,796,826	$72,796,826	**$291,187,304**	
Transfer to CCDF	$0	$0	$0	$77,453,492	**$77,453,492**	
RESERVE	$9,135,029	$206,664,893	$373,240,138	$132,604,268	**$721,644,328**	

Table 1 shows what has been spent by federal reporting components from the federal TANF block grant awards that have been made beginning with the first TANF award in FFY 1997. *Table 2* shows what has been spent in each component to reach Ohio's MOE requirement. The right hand column in both tables shows each component's share of total spending to date from the TANF block grant (*Table 1*) or the state's MOE (*Table 2*).

The composition of the expenditures seen in *Table 1* continues the trends that we observed in earlier reports. The proportion of federal funds going to cash assistance continues to decrease. When we track expenditures on a quarterly basis to reveal spending in a given period (not shown here) we see that the proportion of federal funds going to cash assistance dropped from 61.3 percent in FFY 1998 to 18.1 percent in FFY 2000. Looking at the composition of all expenditures from the TANF grant since FFY 1997 (as *Table 1* displays), the percentage going to cash assistance also reveals a steady decline, going from 46.1 percent at the end of the quarter ending June 30, 2000 to 44.3 percent as of September 30. Corresponding increases have taken place in the proportion of federal funds going to work activities, transportation, diversion payments administration, and information systems. This pattern is to be expected in light of the decline of cash assistance and the type of supports being offered to those recipients who are working, as well as those who are assisted through the PRC program.

Of special note in *Table 1* is the increase in expenditures for work activities. As a category, "work activities" includes (a) subsidies paid to employers or third parties to help cover the cost of wages, benefits, supervision, or training, (b) expenditures on educational activities that are consistent work activities (e.g., adult education, GED and ESL classes, vocational education, and post-secondary education), and (c) other work activities that are not reported in either (a) or (b). These other work activities could include a wide variety of activities like job preparation, counseling, and job development, as well as

TABLE 2: OHIO MOE EXPENDITURES BY CATEGORY						
	FFY 1997	FFY 1998	FFY 1999	FFY 2000	Expenditures To-Date	% of Total To-Date
Cash & Work Based Assistance	$305,589,897	$314,094,233	$314,625,299	$286,493,998	$1,220,803,427	74.10%
Work Activities	8,912,399	624,678	408,315	7,820,019	17,765,411	1.08%
Child Care	45,628,354	51,850,611	49,435,554	45,403,943	192,318,462	11.67%
Prev. of Out-of-Wed. Preg.	--	--	--	321,583	321,583	0.02%
Administration	22,452,646	16,614,890	13,189,648	17,464,830	69,722,014	4.23%
Information Systems	0	5,068,027	3,345,493	3,943,486	8,413,520	0.51%
Other Expenditures	34,391,885	31,820,351	40,496,328	31,467,044	138,175,608	8.39%
TOTAL MOE	**$416,975,181**	**$420,072,790**	**$421,500,637**	**$392,914,903**	**$1,647,520,025**	100.00%

work-related expenses such as work-clothes and equipment.

The history of Ohio's TANF reserve is summarized in *Chart 1*. In the July-September 2000 quarter, Ohio spent $200.9 from federal TANF funds, and did not receive any portion of the annual grant during that period. Ohio also transferred $72.8 million of TANF funds to the Title XX grant (the Social Services Block Grant), and $77.5 million to the Child Care Development Fund (CCDF). Not counting whatever may remain of the funds transferred to the Title XX grant and to the CCDF, the accumulated reserve of unspent TANF federal dollars now totals $721,644,328. This amounts to a $351.1 million dollar reduction in the size of the reserve that was reported at the end of the previous quarter ($1,072,754,705). Of the $721.6 million in reserves as of the end of September, 2000 approximately $462.5 million was encumbered. There are three encumbrances of TANF reserve funds: Prevention, Retention, and Contingency (PRC) reserves, county performance and caseload reduction incentives, and child care reserves.

In *Table 2*, we see that the composition of Ohio's MOE expenditures has remained very stable, with nearly three quarters of state expenditures being dedicated to cash assistance. Of particular interest is the decrease in the total MOE expenditure for FFY 2000, and the increase in the proportion going to work activities.

TANF Cash Assistance Caseload

From the recession peak of the caseload in March 1992, the number of recipients of

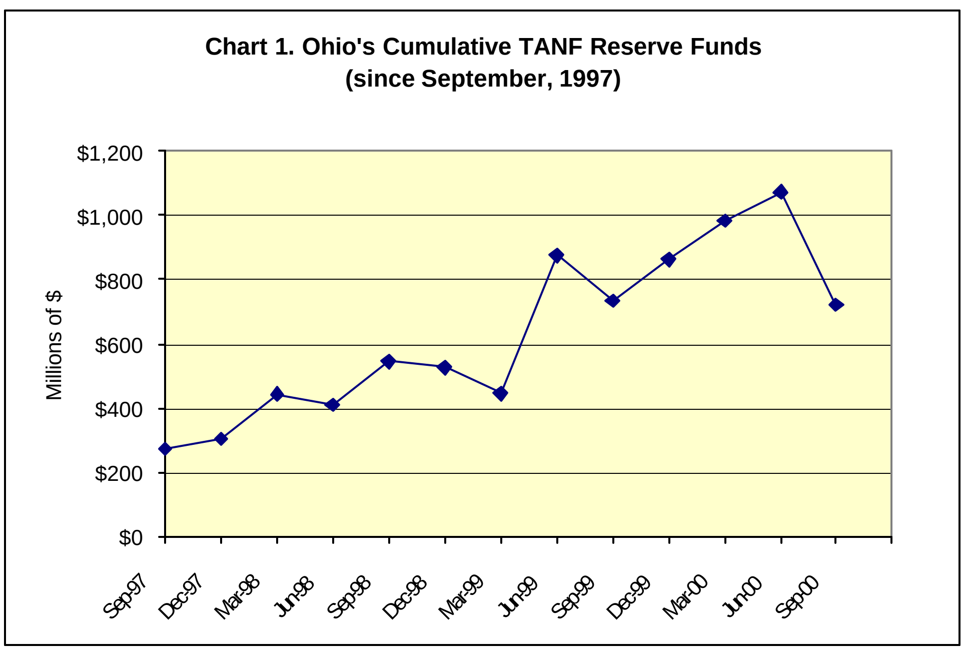
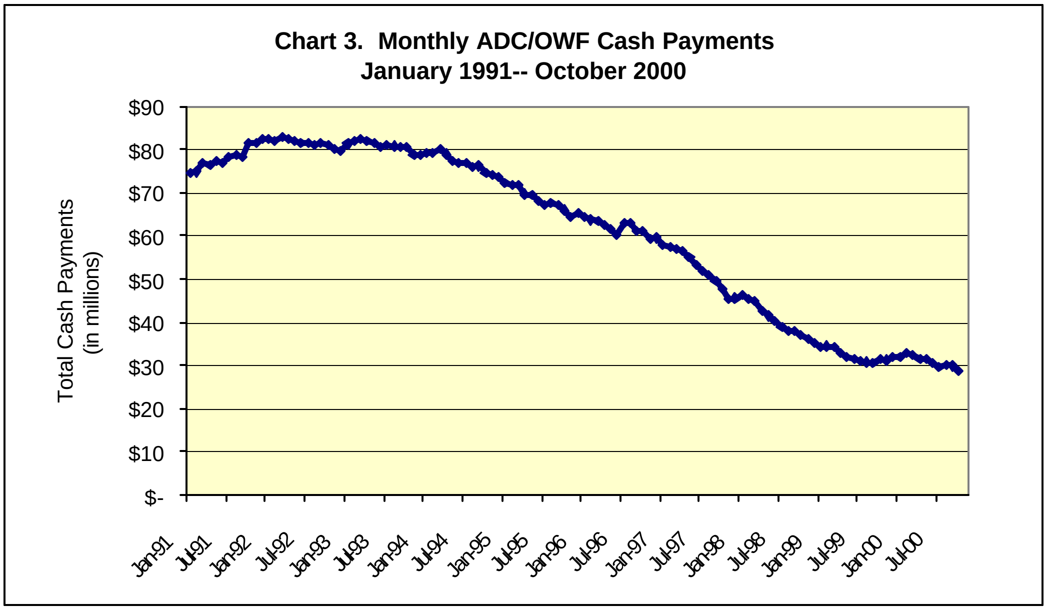


Chart 1. Ohio's Cumulative TANF Reserve Funds (since September, 1997)



cash benefits has declined from 748,717 to 237,358 in September 2000. In October 2000 the number of recipients declined by over 13,000, while the number of assistance groups declined by 3,584. This was due largely to the removal of approximately 3,800 assistance groups from the caseload in October due to the 36-month time limit on the receipt of cash benefits.

After several straight years of decline, monthly cash assistance expenditures have held steady over the last year or so, dipping below the $29 million mark for the first time in October 2000 (see *Chart 3*). The average monthly benefit per recipient, however, hit a new high of over $127. This is due in large part of the increasing proportion of the caseload composed by child only cases, which unlike cases with adults in the assistance group, have no wages to partially offset the amount of the cash benefit.

In the last quarter of FFY 2000 (July-September), total TANF expenditures (both federal and state expenditures) were $247.2 million. Of this amount, $89.7 million was for cash benefits. If we look at the most recently completed state fiscal years, we see that even though expenditures for cash assistance benefits have declined, overall TANF spending increased from SFY 1999 to SFY 2000. Whereas in SFY 1999 total TANF spending was $787.8 million, in SFY 2000 it was $863.7 million. Deducting expenditures for cash benefits in each fiscal year shows that all other expenditures went from $364.6 million in SFY 1999 to $486.5 million in SFY 2000. These other expenditures include a variety of activities that support welfare reform from, for example, services like work subsidies, child care, PRC, TANF E& T, transportation, and the Early Start program, to things like administrative costs, county incentives, supplemental funding to Workforce Investment Act activities, and department computer projects. ❑